

Small Business Owners Tax Workshop Part 1

Presented by:

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IRS Products for Small Businesses:

- [Starting a Business and Keeping Records](#)
- Pub 583
- Virtual Small Business Tax Workshop
- <http://www.irsvideos.gov/SmallBusinessTaxpayer/virtualworkshop>
- Small Business Tax Calendar
 - <http://www.tax.gov/calendar/>

What's on the IRS Web Site?

- ▶ Forms & publications
- ▶ Online classroom
- ▶ Lots of information for new businesses
- ▶ Industry specific information
- ▶ Employment taxes

www.irs.gov



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*I need to **pay**
my tax bill*



*I've got a
question*



*I need to get or
renew my **PTIN***



Forms & Pubs

- W-9
- 941
- W-4
- 1040
- 941 Inst
- 1099MISC
- W-2
- 4506-T
- Tax Table
- 1040 Inst

[+ More...](#)

Hot Topics

- New 1099-K Reporting Requirements
- Sign up for a PTIN
- Free File: It's Fast, Easy & Secure
- Affordable Care Act Tax Provisions
- Airline Ticket Taxes Reinstated

[+ More...](#)

Tools

- Order a Return or Account Transcript
- Use the Interactive Tax Assistant
- Apply for an EIN Online
- Get or Renew Your PTIN
- Request an Electronic Filing PIN

[+ More...](#)

Filing & Payment



News

[New Tax Gap Estimates Released](#)

[More Innocent Spouses Qualify for Relief under New Guidelines](#)

[IRS Urges Preparers to Renew PTINs for 2012](#)

[Filing Extension for Some Tax-Exempt Organizations](#)

[+ More...](#)

[Offshore Disclosure](#)

[2012](#)

[Help for Taxpayers](#)

[Health Care Credit](#)

[Undelivered Refunds](#)



Want to Help Others?

Volunteer in your community to provide free tax return preparation.

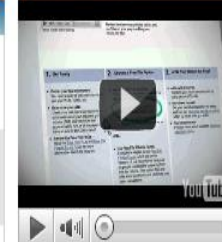
Get a Fresh Start

New steps help struggling taxpayers pay back taxes, avoid tax liens.

What If...?

Having financial problems? Here are answers to a few tough questions.

Social Media



Do Your Taxes for Free



Resolve an Issue

- Appealing a Tax Dispute
- Responding to a Notice
- Taxpayer Advocate Service
- Disaster Relief

Gather & Protect Info

- Privacy Policy
- Reporting Phishing
- Identity Theft
- Freedom of Information Act
- Tax Stats
- No FEAR Act

Visit Other Sites

- U.S. Treasury
- USA.gov
- Whitehouse.gov
- Treasury Inspector General for Tax Administration

Access Other Formats

- Accessibility
- Español
- 中文
- 한국어
- TiếngViệt
- Русский

Work at IRS

- Careers
- Equal Employment Opportunity
- Contracting Opportunities

Subscribe to e-News for Small Businesses

- ▶ Electronic mail distributed every other week
- ▶ What's new for small businesses
- ▶ Reminders and tips for small businesses
- ▶ subscribe at <http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Subscribe-to-e-News-for-Small-Businesses>
- ▶ Keyword: e-news for small business

At the end of this workshop, you will know...

- ▶ What Tax Forms to File for your Business Entity (Part 1)
- ▶ Where to report your profit/loss from your business (Part 1)
- ▶ How to determine what expenses are deductible as business expenses (Part 1)
- ▶ When you must pay Self Employment Tax (Social Security and Medicare) (Part 2)
- ▶ How to make Estimated Tax payments (Part 2)

Types of Entities

- ▶ Sole Proprietor
- ▶ Partnership
- ▶ Corporation
- ▶ Regular
- ▶ S-Corp
- ▶ LLC – Limited Liability Company

Partnership

A relationship between two or more persons who join together to carry on a trade or business.

- ▶ At least 2 people
- ▶ Husband and wife owning a joint business are generally a partnership - Can elect out though
- ▶ Each person contributes money, property or skill & expect share in Profit & Loss
- ▶ Draw back is that you must share power and have unlimited liability

Partnerships Con't

- ▶ Files Form 1065, US Partnership Return of Income - information only
- ▶ Each partner receives a Schedule K-1 (Form 1065): Partner's Share of Income Credit, Deductions, etc (See page 1-13, Pub 1066)
- ▶ Partner completes Schedule E of Form 1040
- ▶ Subject to Self Employment Tax
- ▶ Publication 541

Partnerships con't

- ▶ MUST have a Partnership agreement
- ▶ Preferably by an Attorney – Handshake days are gone
- ▶ Accountants CANNOT give legal advice!
- ▶ Spend the money now for a proper set-up to save long and costly battles in the future
- ▶ No protection from individual liability for General Partners

Corporations

- ▶ S Corporation (S-Corp) - Files Form 1120S
- ▶ Election to be taxed similar to a partnership (Form 2553 to make election)
- ▶ Need to file Form 2553 by the 15th day of the 3rd month for the year to be treated as an S-Corp.
- ▶ 100 S/H, No Foreign ownership
- ▶ Reasonable compensation
- ▶ An S-Corp does not pay tax on income from daily operations.

S-Corporations Con't

- ▶ All income, losses, deductions and credits generated by the S-Corp pass through to it's S/H
- ▶ Shareholder receives Schedule K-1 (Form 1120S): Shareholder's Share of Income, Credits, Deductions, etc
- ▶ Shareholder completes Schedule E of Form 1040
- ▶ NOT Subject to SE Tax (Wages subject to FICA)
- ▶ Form 1120S Instructions and Form 2553

Corporations

Regular Corporation (C-Corp) - Files Form 1120

US Corporation Income Tax Return

- ▶ Corporations are treated by the law as legal entities, treated separately from its owners.
- ▶ Individual Liability Protection
- ▶ Shareholders receive dividends- 1099-DIV
- ▶ Employees receive Form W-2
- ▶ NOT subject to SE Tax (pay Income Tax)
- ▶ Publication 542
- ▶ Possible double taxation

Limited Liability Company (LLC)

- ▶ Formed by filing Certificate of Formation with SOS
- ▶ Not a Federal tax entity (Pub 3402)
- ▶ Multiple Member LLC Generally Considered a Partnership
- ▶ Single Member LLC Generally Considered a “Disregarded Entity” & Files as Sole Proprietor
- ▶ Limited Liability Protection
- ▶ More flexible form of Business Entity

Limited Liability Company (LLC) con't

- ▶ Can elect to be treated as a C-Corporation - Form 8832 or S-Corporation – Form 2553
- ▶ LLCs are popular because owners have limited personal liability for the debts and actions of the LLC, without many of the formalities of a corporation.

Sole Proprietorship

- ▶ Most Common form of Entity Type
- ▶ 23 million filed as Schedule C's in 2014
- ▶ Is simplest and cheapest form
- ▶ Is formed with one owner
- ▶ File a Master License Application – Dept of Revenue (DOR)
- ▶ May be right for many
- ▶ Unlimited liability
- ▶ Should avoid for high risk business

Sole Proprietor con't

- ▶ Income flows to individual via Schedule C
- ▶ Drawback – owner cannot be on payroll
- ▶ Need to be disciplined in budgeting
- ▶ Makes estimated tax payments
- ▶ Should spend some time with Accounting and Tax Professional to discuss if this is right for you!

Entity Types Available

Entity Type	US	WA	LLC?
Sole Proprietor	23,000,000	?	Yes
Partnership	3,799,000	79,697	Yes
S-Corporation	4,643,000	97,074	Yes
C-Corporation	2,221,000	38,274	Yes

► Source: 2014 IRS Tax Book Statistics

► Comparison Chart

Entity Type	Liability	Taxation	Formation	Corporate Maintenance	WA Excise Taxation & Liability
Regular C-Corporation (Inc)	Owners have limited personal liability for business debts.	Separate taxable entity. Pays Income Tax	May have an unlimited number of shareholders.	Shares of stock may be sold to raise capital	
		Fringe benefits can be deducted as business expense.	More expensive to create than partnership or sole proprietorship. Register with SOS.	Formality requirements (e.g. annual reports, minutes, meetings) are required to maintain corporate status.	Taxes based on business entity income. Responsible parties may have liability for trust fund taxes
S-Corporation (Inc)	Owners have limited personal liability for business debts.	Owners report their share of corporate profit or loss on their personal tax returns.	More expensive to create than partnership or sole proprietorship. Register with SOS.	More formality requirements than for a limited liability company which offers similar advantages.	
		Owners can use corporate loss to offset income from other sources.			
		Fringe benefits limited for owners who own more than 2% of shares.			

► Comparison Chart

Entity Type	Liability	Taxation	Formation	Corporate Maintenance	WA Excise Taxation & Liability
Limited Liability Company	Combines a corporation's liability protection and pass-through tax structure of a partnership.	IRS rules allow LLCs to choose between being taxed as sole proprietor, partnership or corporation.	More expensive to create than partnership or sole proprietorship. Register with SOS.	Sale of member interests may take place per company policy.	Taxes based on business entity income. Responsible parties may have liability for trust funds.
Sole Proprietorship	Owner personally liable for business debts.	Owner reports profit or loss on his or her personal tax return.	Simple and inexpensive to create and operate. No filing necessary with SOS.		Taxes based on business entity income. Sole proprietor has unlimited liability
General Partnership	Owner (partners) personally liable for business debts.	Owner (partners) reports profit or loss on his or her personal tax returns.	Simple and inexpensive to create and operate. No filing necessary with SOS.		Taxes based on business entity income. General Partners have unlimited liability.
Limited Partnership	Limited partners have limited personal liability for business debts as long as they don't participate in management.		Suitable mainly for companies that invest in real estate.	General partners can raise cash without involving outside investors in management of business.	Taxes based on business entity income. General Partners have unlimited liability. Limited partners may have liability up to the amount of their investment
			More expensive to create than general partnership.	General partners personally liable for business debts.	

Record Keeping Requirements

- ▶ Records must support income and deductions that show amount, time, place, purpose.
- ▶ You **MUST** keep:
 - ▶ receipts, sales slips, invoices, bank deposit slips, canceled checks
 - ▶ Other documents to substantiate income and deductions
 - ▶ Use a separate bank account for business

Record keeping Software

- ▶ QuickBooks used by most Small Businesses
- ▶ Sage (Peachtree Pro)
- ▶ Xero
- ▶ FreshBooks
- ▶ Many others available

SCHEDULE C
(Form 1040)

Department of the Treasury
Internal Revenue Service (IRS)

Profit or Loss From Business
(Sole Proprietorship)

OMB No. 1545-0074
2011
Attachment No. **09**

▶ For information on Schedule C and its instructions, go to www.irs.gov/schedulec
▶ Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

Name of proprietor

A Principal business or profession, including product or service (see instructions)

B Enter code from instructions

C Business name: If no change from 2010, leave blank.

D Employer identification number (EIN) (see instr.)

E Business address (including suite or room no.) ▶
City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2011? If "No," see Instructions for limit on losses ☐ Yes ☐ No

H If you started or acquired this business during 2011, check here ☐ Yes ☐ No

J If "Yes," did you or will you file all required Forms 1099? ☐ Yes ☐ No

Part I Income

1a Merchant card and third party payments. For 2011, enter -0-	1a	
b Gross receipts or sales not entered on line 1a (see instructions)	1b	
c Income reported to you on Form W-2 if the "Statutory Employee" box on that form was checked. Caution: See instr. before completing this line	1c	
d Total gross receipts. Add lines 1a through 1c	1d	
2 Returns and allowances plus any other adjustments (see instructions)	2	
3 Subtract line 2 from line 1d	3	
4 Cost of goods sold (from line 42)	4	
5 Gross profit. Subtract line 4 from line 3	5	

Principal Business Codes

- 6 digit code
- Found in Schedule C Instructions,
- Accounting Method

Accounting Method

Cash

- ▶ Report income when actually received
- ▶ Deduct expenses when actually paid
- ▶ Up to \$1 Million in Sales (most businesses)

Accrual

- ▶ Report income when earned regardless of when paid.
- ▶ Deduct expenses when incurred regardless of when paid

■ Pub 538

Business Income

All income your business receives unless excluded by law:

- ▶ Income from sale of product or for your services
- ▶ Includes Bartering (1099-B)
- ▶ Other types of income
- ▶ Recordkeeping

**SCHEDULE C
(Form 1040)**Department of the Treasury
Internal Revenue Service (99)

Name of proprietor

Profit or Loss From Business
(Sole Proprietorship)► For information on Schedule C and its instructions, go to www.irs.gov/schedulec

► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2011Attachment
Sequence No. **09**

Social security number (SSN)

A Principal business or profession, including product or service (see instructions)**B** Enter code from instructions**C** Business name. If no separate business name, leave blank.**D** Employer ID number (EIN), (see instr.)**E** Business address (including suite or room no.) ►

City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ►**G** Did you "materially participate" in the operation of this business during 2011? If "No," see instructions for limit on losses ☐ Yes ☐ No**H** If you started or acquired this business during 2011, check here ☐**I** Did you make any payments in 2011 that would require you to file Form(s) 1099? (see instructions) ☐ Yes ☐ No**J** If "Yes," did you or will you file all required Forms 1099? ☐ Yes ☐ No**Part I Income**

1a Merchant card and third party payments. For 2011, enter -0-	1a	
b Gross receipts or sales not entered on line 1a (see instructions)	1b	
c Income reported to you on Form W-2 if the "Statutory Employee" box on that form was checked. Caution. See instr. before completing this line	1c	
d Total gross receipts. Add lines 1a through 1c	1d	
2 Returns and allowances plus any other adjustments (see instructions)	2	
3 Subtract line 2 from line 1d	3	
4 Cost of goods sold (from line 42)	4	
5 Gross profit. Subtract line 4 from line 3	5	
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7 Gross income. Add lines 5 and 6	7	

Part II Expenses**Enter expenses for business use of your home only on line 30.**

8 Advertising	8		18 Office expense (see instructions)	18	
9 Car and truck expenses (see instructions)	9		19 Pension and profit-sharing plans	19	
10 Commissions and fees	10		20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11		a Vehicles, machinery, and equipment	20a	
12 Depletion	12		b Other business property	20b	
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21 Repairs and maintenance	21	
14 Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)	22	
15 Insurance (other than health)	15		23 Taxes and licenses	23	
16 Interest:			24 Travel, meals, and entertainment:		
a Mortgage (paid to banks, etc.)	16a		a Travel	24a	
b Other	16b		b Deductible meals and entertainment (see instructions)	24b	
17 Legal and professional services	17		25 Utilities	25	
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28		26 Wages (less employment credits)	26	
29 Tentative profit or (loss). Subtract line 28 from line 7	29		27a Other expenses (from line 48)	27a	
30 Expenses for business use of your home. Attach Form 8829. Do not report such expenses elsewhere	30		b Reserved for future use	27b	
31 Net profit or (loss). Subtract line 30 from line 29.	31				
<div>• If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. If you entered an amount on line 1c, see instr. Estates and trusts, enter on Form 1041, line 3.</div> <div>• If a loss, you must go to line 32.</div> <div>• If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both Form 1040, line 12, (or Form 1040NR, line 13) and on Schedule SE, line 2. If you entered an amount on line 1c, see the instructions for line 31. Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198. Your loss may be limited.</div>					

32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2011

33	Method(s) used to value closing inventory:	a <input type="checkbox"/> Cost	b <input type="checkbox"/> Lower of cost or market	c <input type="checkbox"/> Other (attach explanation)
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventory?			
	If "Yes," attach explanation	<input type="checkbox"/> Yes <input type="checkbox"/> No		
35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35		
36	Purchases less cost of items withdrawn for personal use	36		
37	Cost of labor. Do not include any amounts paid to yourself	37		
38	Materials and supplies	38		
39	Other costs	39		
40	Add lines 35 through 39	40		
41	Inventory at end of year	41		
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42		

43 When did you place your vehicle in service for business purposes? (month, day, year) / /

44 Of the total number of miles you drove your vehicle during 2011, enter the number of miles you used your vehicle for:

a Business _____ b Commuting (see instructions) _____ c Other _____

45 Was your vehicle available for personal use during off-duty hours? ☐ Yes ☐ No

46 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No

47a Do you have evidence to support your deduction? ☐ Yes ☐ No

b If "Yes," is the evidence written? ☐ Yes ☐ No

[illegible]

General COGS Formula

$$\begin{aligned} & \text{Beginning Inventory} \\ & + \text{Purchases} \\ & - \text{Personal Use Goods} \\ & - \text{Ending Inventory} \\ & \hline & = \text{Cost of Goods Sold} \end{aligned}$$

Business Expense

In order to be deductible, expenses must pass certain tests:

- ▶ The expense must be ordinary
- ▶ It must be necessary to your business
- ▶ It must be incurred and/or paid by you

Going Into business...

You can choose to amortize certain costs (Start-up Cost) for setting up your business over a period of 180 months (15 years).

Qualifying Start-up Costs...

A start-up cost is amortizable if it meets both the following tests:

- ▶ It is a cost you could deduct if you paid
- ▶ or incurred it to operate an existing
- ▶ trade or business (in the same field), and
- ▶ It is a cost you pay or incur before the
- ▶ day your active trade or business begins
- ▶ **\$50,000 Limit**

Part II Expenses. Enter expenses for business use of your home only on line 30.

8	Advertising	8			18	Office expense	18		
9	Car and truck expenses (see page C-6)	9			19	Pension and profit-sharing plans	19		
10	Commissions and fees	10			20	Rent or lease (see page C-6):			
11	Contract labor (see page C-5)	11			a	Vehicles, machinery, and equipment	20a		
12	Depletion	12			b	Other business property	20b		
13	Depreciation and section 179 expense deduction (not included in Part III) (see page C-5)	13			21	Repairs and maintenance	21		
14	Employee benefit programs (other than on line 19)	14			22	Supplies (not included in Part III)	22		
15	Insurance (other than health)	15			23	Taxes and licenses	23		
16	Interest:				24	Travel, meals, and entertainment			
a	Mortgage (paid to banks, etc.)	16a			a	Travel	24a		
b	Other	16b			b	Deductible meals and entertainment (see page C-7)	24b		
17	Legal and professional services	17			25	Utilities	25		
28	Total expenses before expenses for business use of home. Add lines 8 through 27				26	Wages (less employment credits)	26		
29	Tentative profit or (loss). Subtract line 29 from line 7				27	Other expenses (from line 48 on page 2)	27		
30	Expenses for business use of your home. Attach Form 8829								
31	Net profit or (loss). Subtract line 30 from line 29.								
	• If a profit, enter on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13 (if you checked the box on line 1, see page C-7). Estates and trusts, enter on Form 1041, line 3.								
	• If a loss, you must go to line 32.								
32	If you have a loss, check the box that describes your investment in this activity (see page C-9).								
	• If you checked 32a, enter the loss on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13 (if you checked the box on line 1, see the line 31 instructions on page C-7). Estates and trusts, enter on Form 1041, line 3.								
	• If you checked 32b, you must attach Form 6199. Your loss may be limited.								

32a ☐ All investment is at risk.

32b ☐ Some investment is not at risk.

Car & Truck Expenses

- ▶ If you use no more than four vehicles at the same time for business purposes, you may use the standard mileage rate.
- ▶ To use the standard mileage rate on a vehicle after the first year of business use, you **MUST** have used the standard mileage rate the first year.

Car & Truck Expenses

- ▶ In later years you can alternate between standard mileage and actual expenses
- ▶ If you used actual expenses in the first year you can NOT alternate
- ▶ Standard Mileage Rate Method
- ▶ Actual Expense Method
- ▶ Publication 463: Travel, Entertainment, Gift & Car Expenses

Standard Mileage Rate

- ▶ 54.0¢ per business mile for 2017(not released)
- ▶ 54.0¢ per business mile for 2016
- ▶ Keep records on business mileage
- ▶ Can't take actual expenses
- ▶ Can't take depreciation

Actual Expenses

Examples of Expenses:

Oil & Gas
Auto Insurance
Repairs
Tires
Fees & Licenses
Depreciation
Interest

Total Operating Exp.

X

Business Use %

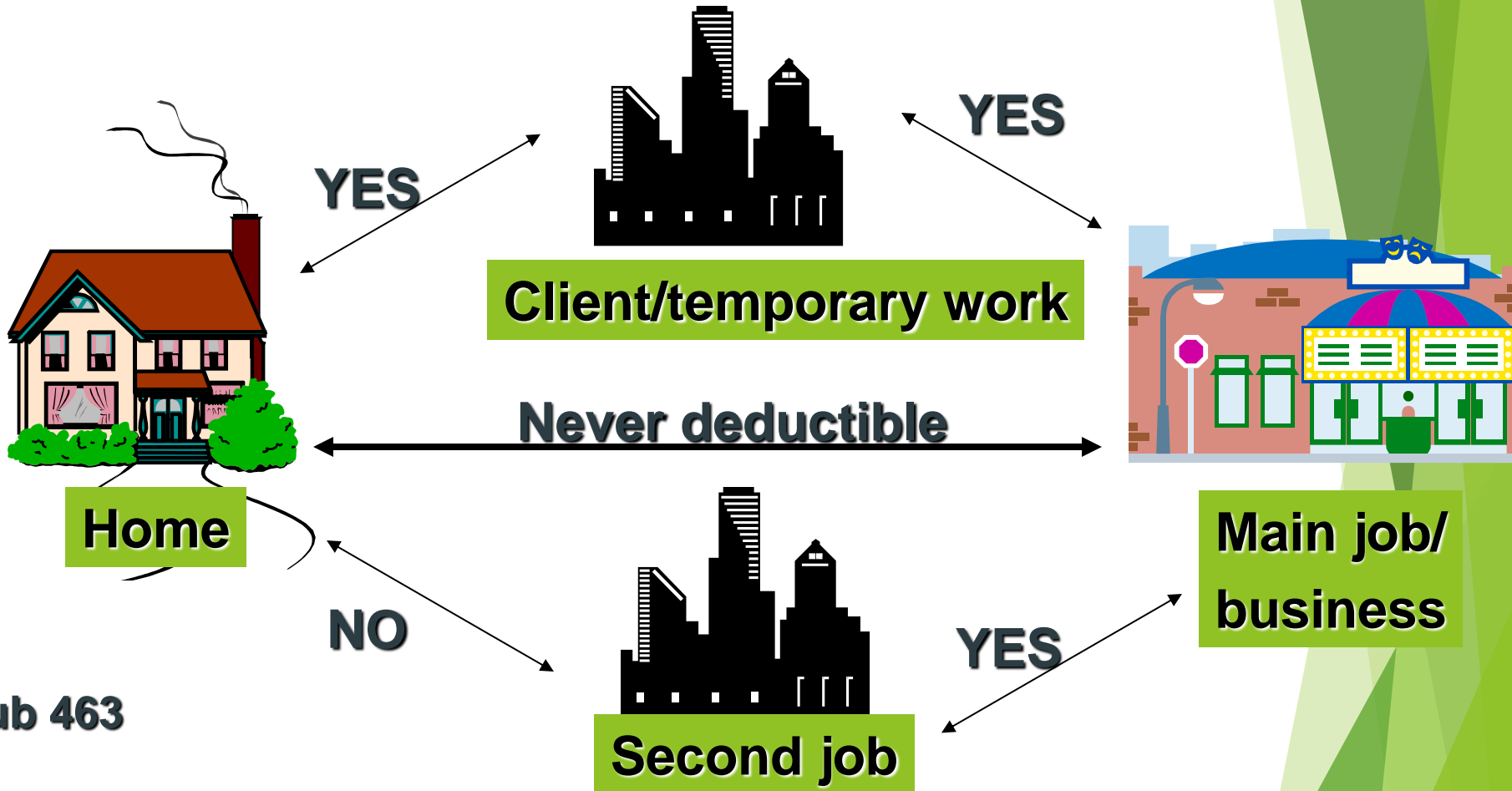
**= Deductible Auto
Expense**

- ▶ Must keep total & business mileage records
- ▶ Must keep substantiation of expenses
- ▶ Cannot deduct Fines or Traffic Violations

Commuting Expenses

- ▶ Expenses for going from home to work are not deductible
- ▶ Deductible Local Transportation Expenses may include:
 - ▶ Getting from one place of work to another
 - ▶ Visiting clients or customers
 - ▶ Going to a business meeting

When are Local Transportation Expenses Deductible?



Pub 463

Depreciation

Q: What is Depreciation?

A: Depreciation is the annual deduction allowed to recover the cost of your investment property beyond the current tax year.

Decrease in the value of property over time

Conditions Required for Depreciation

- ▶ Property must be used in business
- ▶ Property must have determinable life longer than 1 year
- ▶ Property must be something that wears out, decays, gets used up, becomes obsolete or loses value from natural causes.

You CANNOT depreciate

- ▶ Land
- ▶ Inventory
- ▶ Leased property

Section 179

- ▶ An election to deduct costs of certain depreciable property in the year in which you place it in service
- ▶ Maximum amount for is \$510,000 (\$500,000)
- ▶ Total Asset Pool = <\$2,300,000 (\$2,000,000)
- ▶ Election made by filing Form 4562

Section 179 - Rules

- ▶ Property must be acquired by purchase
- ▶ Property cannot be:
 - ▶ real property
 - ▶ property outside the United States
 - ▶ used 50% or less for business
 - ▶ Intangible – goodwill, non-compete

Auto - Depreciation Limits

- ▶ Limitations on Sec. 179 and depreciation (50% use minimum for business)
- ▶ Amounts are reduced by non-business use %
- ▶ Max Auto dep limit - \$11,160/yr
- ▶ Refer to Publications 463 & 946 for additional information

QUESTIONS ???

Be sure to visit www.irs.gov/smallbiz

- ▶ www.nwaccountants.com
- ▶ Contact me at: 425-778-2665 or rizwan@nwaccountants.com
- ▶ 16300 Mill Creek Blvd Ste 203
Mill Creek, WA 98012

PART 2 Small Business Taxes

Travel Expenses -Pub 463

Travel expenses are ordinary and necessary expenses of traveling away from your tax home for your business.

Tax home is your regular place of business or post-of-duty, regardless of where you maintain your family home.

Deductible Travel Expenses

- ▶ Transportation (Air Fare)
- ▶ Local Transportation (cabs, limo etc)
- ▶ Baggage & Shipping
- ▶ Auto
- ▶ Meals (Limited 50%)
- ▶ Lodging
- ▶ Cleaning
- ▶ Telephone
- ▶ Tips

Entertainment Expenses

- ▶ Ordinary & Necessary and meets either the Directly Related or Associated Tests
- ▶ Only 50% Deductible
- ▶ Whether you use Per Diem or Actual
- ▶ Must Allocate Business Portion
- ▶ Keep receipts that show time, place and purpose of entertainment (includes meals)
- ▶ Per Diem Rates

Publication 463; Travel, Entertainment, Gift and Car Expenses

Non-Deductible



Business Gifts

Annual Limit
\$25 Per Client

Cannot increase limit by splitting
gift with client's family members

Publication 463; Travel, Entertainment, Gift
and Car Expenses

Utilities Expense

You cannot deduct the cost of basic local telephone service (including any taxes) for the first telephone line you have in your home. Even though you have an office in your home.

Charges for business long-distance phone calls on that line, as well as the cost of a second line into your home used exclusively for business, are deductible business expenses.

Business Use of Home

To deduct expenses related to the business use of part of your home, you must meet specific requirements. Even then, your deduction may be limited.

Form 8829,
Expenses of Business
Use of Home

Publication 587,
Business Use of Home

Business Use of Home Test

- ▶ A portion of your home is used exclusively on a regular basis as
 - ▶ your principle place of business or
 - ▶ a place of business used by your patients, clients, or customers to meet or deal within the normal course of your business or
 - ▶ a separate structure you use in connection with your business

Definitions.....

- ▶ Exclusive Use: must use specific area of home ONLY for trade or business
- ▶ Exception for storage & day care facility
- ▶ Regular use: area must be used on a regular basis
- ▶ Trade or Business use: area must be used in connection with a trade or business

Definitions....

Principal Place of business -

Needs to meet the following tests:

- ▶ Used exclusively & regularly for administrative or management activities of the trade or business
- ▶ There is no other fixed location where substantial administrative or management activities of the business are conducted

Exceptions

Storage of inventory or product samples

- ▶ must be in the retail or wholesale selling of products
- ▶ must be the only fixed location for business
- ▶ must be used on a regular basis
- ▶ identifiable separate space

Simplified Home Office Deduction

- ▶ Starting with Tax Year 2013 (filed in 2014)
 - ▶ \$5 square feet up to 300 square feet
 - ▶ Up to a total of \$1,500.00 per year deduction
 - ▶ No depreciation allowed
 - ▶ Same requirements as Form 8829 (new form to be announced later on)
 - ▶ No affect on Schedule A deductions for mortgage interest and property taxes!!

Comparison Chart Home Office

Simplified Option

Deduction for home office use of a portion of a residence allowed only if that portion is **exclusively** used on a **regular basis** for business purposes

Allowable square footage of home use for business (not to exceed 300 square feet)

Home-related itemized deductions claimed in full on Schedule A

No depreciation deduction

No recapture of depreciation upon sale of home

Regular Method

Same

Percentage of home used for business

Home-related itemized deductions apportioned between Schedule A and business schedule (Sch. C or Sch. F)

Depreciation deduction for portion of home used for business

Recapture of depreciation on gain upon sale of home

Comparison Chart Home Office con't

Simplified Option

Deduction cannot exceed gross income from business use of home less business expenses

Amount in excess of gross income limitation may **not** be carried over

Home-related itemized deductions claimed in full on Schedule A

Loss carryover from use of regular method in prior year may **not** be claimed

Regular Method

Same

Amount in excess of gross income limitation may be carried over

Home-related itemized deductions apportioned between Schedule A and business schedule (Sch. C or Sch. F)

Loss carryover from use of regular method in prior year may be claimed if gross income test is met in current year

Hobbies



- If you do not carry on your “activity” for profit you cannot take a loss
- Expenses generally deductible up to amount of gross income and are taken on Schedule A
 - Individuals, Partnerships, S-Corportions and LLC’s
 - Pub 535

Self-Employment Tax

- ▶ Self-employed people who are sole proprietors or partners may be subject to self-employment tax.
- ▶ Self-employment tax is Social Security and Medicare taxes.
- ▶ Working for someone else they pay half and you pay half.
- ▶ Working for yourself you pay all of it!

Self-Employment Tax con't

- **If your net profit from self-employment is \$400 or more, you must file Form 1040, Schedule SE, Self-Employment Tax**

**SCHEDULE SE
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

▶ Attach to Form 1040 or Form 1040NR. ▶ See separate instructions.

OMB No. 1545-0074

2011
Attachment
Sequence No. **17**

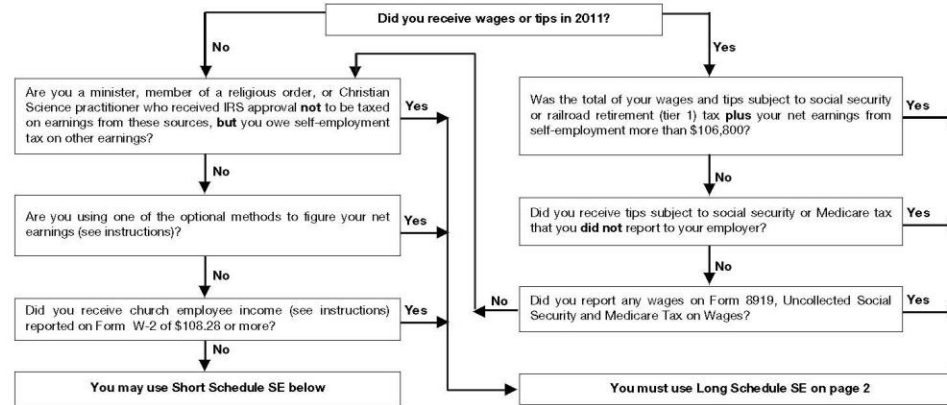
Name of person with **self-employment** income (as shown on Form 1040)

Social security number of person
with **self-employment** income ▶

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note. Use this flowchart **only** if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution. Head above to see if you can use Short Schedule SE.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a	
b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Y	1b ()
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2	
3 Combine lines 1a, 1b, and 2	3	
4 Multiply line 3 by 92.35% (.9235). If less than \$400, you do not owe self-employment tax; do not file this schedule unless you have an amount on line 1b Note. If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	4	
5 Self-employment tax. If the amount on line 4 is: • \$106,800 or less, multiply line 4 by 13.3% (.133). Enter the result here and on Form 1040, line 56, or Form 1040NR, line 54 • More than \$106,800, multiply line 4 by 2.9% (.029). Then, add \$11,107.20 to the result. Enter the total here and on Form 1040, line 56, or Form 1040NR, line 54	5	
6 Deduction for employer-equivalent portion of self-employment tax. If the amount on line 5 is: • \$14,204.40 or less, multiply line 5 by 57.51% (.5751) • More than \$14,204.40, multiply line 5 by 50% (.50) and add \$1,067 to the result. Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	6	

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11358Z

Schedule SE (Form 1040) 2011

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Margaret Cole & Associates

2012 Estimated Tax Worksheet

Keep for Your Records



1	Adjusted gross income you expect in 2012 (see instructions)	1	
2	<ul style="list-style-type: none"> If you plan to itemize deductions, enter the estimated total of your itemized deductions. If you do not plan to itemize deductions, enter your standard deduction. 	2	
3	Subtract line 2 from line 1.	3	
4	Exemptions. Multiply \$3,800 by the number of personal exemptions	4	
5	Subtract line 4 from line 3.	5	
6	Tax. Figure your tax on the amount on line 5 by using the 2012 Tax Rate Schedules . Caution: If you will have qualified dividends or a net capital gain, or expect to exclude or deduct foreign earned income or housing, see chapter 2 of Pub. 505 to figure the tax.	6	
7	Alternative minimum tax from Form 6251	7	
8	Add lines 6 and 7. Add to this amount any other taxes you expect to include in the total on Form 1040, line 44.	8	
9	Credits (see instructions). Do not include any income tax withholding on this line.	9	
10	Subtract line 9 from line 8. If zero or less, enter -0-	10	
11	Self-employment tax (see instructions)	11	
12	Other taxes (see instructions)	12	
13a	Add lines 10 through 12.	13a	
b	Earned income credit, additional child tax credit, fuel tax credit, refundable American opportunity credit, and refundable credits from Forms 8801 and 8885 .	13b	
c	Total 2012 estimated tax. Subtract line 13b from line 13a. If zero or less, enter -0- ▶	13c	
14a	Multiply line 13c by 90% (66⅔% for farmers and fishermen)	14a	
b	Required annual payment based on prior year's tax (see instructions)	14b	
c	Required annual payment to avoid a penalty. Enter the smaller of line 14a or 14b ▶	14c	
Caution: Generally, if you do not prepay (through income tax withholding and estimated tax payments) at least the amount on line 14c, you may owe a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 13c is as accurate as possible. Even if you pay the required annual payment, you may still owe tax when you file your return. If you prefer, you can pay the amount shown on line 13c. For details, see chapter 2 of Pub. 505.			
15	Income tax withheld and estimated to be withheld during 2012 (including income tax withholding on pensions, annuities, certain deferred income, etc.)	15	
16a	Subtract line 15 from line 14c	16a	
Is the result zero or less?			
<input type="checkbox"/> Yes. Stop here. You are not required to make estimated tax payments. <input type="checkbox"/> No. Go to line 16b.			
b	Subtract line 15 from line 13c	16b	
Is the result less than \$1,000?			
<input type="checkbox"/> Yes. Stop here. You are not required to make estimated tax payments. <input type="checkbox"/> No. Go to line 17 to figure your required payment.			
17	If the first payment you are required to make is due April 17, 2012, enter ¼ of line 16a (minus any 2011 overpayment that you are applying to this installment) here, and on your estimated tax payment voucher(s) if you are paying by check or money order.	17	

Self-Employment Tax con't

- ▶ Social Security
 - ▶ 12.4%
 - ▶ Medicare
 - ▶ 2.9%
 - ▶ Total = 15.3%
- ▶ Maximum Social Security for 2017 is \$127,200 (\$118,500)
 - ▶ Includes wages
 - ▶ No maximum for Medicare

Estimated Taxes

- ▶ Pay as you go
- ▶ Expect to owe taxes - including self employment tax- of \$1,000 or more when you file your tax return
- ▶ Form 1040ES
- ▶ Pub 505 Tax Withholding and Estimated Tax

2009 Estimated Tax

File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to the "United States Treasury." Write your social security number and "2009 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Print or type	Your first name and initial		Your last name		Your social security number	
	If joint payment, complete for spouse					
	Spouse's first name and initial		Spouse's last name		Spouse's social security number	
	Address (number, street, city, state, and ZIP code.)					

For Privacy Act and Paperwork

2009 Estimated Tax

Payment Voucher 2

OMB No. 1545-0074

File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to the "United States Treasury." Write your social security number and "2009 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Print or type	Your first name and initial		Your last name		Your social security number	
	If joint payment, complete for spouse					
	Spouse's first name and initial		Spouse's last name		Spouse's social security number	
	Address (number, street, and apt. no.)					

Print or type	Your first name and initial		Your last name		Your social security number	
	If joint payment, complete for spouse					
	Spouse's first name and initial		Spouse's last name		Spouse's social security number	
	Address (number, street, and apt. no.)					

For Privacy Act and

2009 Estimated Tax

Payment Voucher 3

OMB No. 1545-0074

File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to the "United States Treasury." Write your social security number and "2009 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Print or type	Your first name and initial		Your last name		Your social security number	
	If joint payment, complete for spouse					
	Spouse's first name and initial		Spouse's last name		Spouse's social security number	
	Address (number, street, and apt. no.)					

For Privacy Act and Paperwork

2009 Estimated Tax

Payment Voucher 4

OMB No. 1545-0074

File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to the "United States Treasury." Write your social security number and "2009 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Print or type	Your first name and initial		Your last name		Your social security number	
	If joint payment, complete for spouse					
	Spouse's first name and initial		Spouse's last name		Spouse's social security number	
	Address (number, street, and apt. no.)					

For Privacy Act and Paperwork Reduction Act Notice, see Instructions above.

Dates adjusted for weekend/holidays

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Additional Medicare Tax 0.9%

Filing Status	Threshold Amount
▪ Married filing jointly	\$250,000
▪ Married filing separately	\$125,000
▪ Single	\$200,000
▪ Head of household (with qualifying person)	\$200,000
▪ Qualifying widow(er) with dependent child	\$200,000

EFTPS The Easiest Way to Pay Federal Taxes

- ▶ Secure
- ▶ Fast
- ▶ Accurate
- ▶ Convenient
- ▶ Easy to Use
- ▶ Select Your Method of Payment
- ▶ By telephone
- ▶ On-line

EFTPS Con't

www.eftps.gov

- ▶ enroll
- ▶ schedule/make payments
- ▶ account history
- ▶ Enroll – call 800-555-4477 or enroll on-line

EFTPS con't

- ▶ if Sole Proprietor
- ▶ Must have one EFTPS for business if you have EE's
- ▶ Must have a separate one for self employed earnings estimated payments

Avoiding Penalties

- ▶ File an Accurate/Timely /Correct Return
- ▶ 20% Accuracy Related Penalty if You Understate Tax Liability Due to:
 - ▶ Negligence
 - ▶ Substantial Valuation Misstatements
 - ▶ Substantial Understatement of Tax
- ▶ 75% Civil Fraud Penalty
- ▶ Felony Criminal Fraud
- ▶ Combined Penalty is 5%/month
 - ▶ 4.5% late filing and 0.5% late payment

Independent Contractor or Employee

- ▶ Behavioral Control
 - ▶ Right to direct or control how worker does work
 - ▶ IE if you receive extensive directions then EE
 - ▶ How, when, where, what tools to use, what assistants to hire, where to purchase supplies etc
 - ▶ Training
 - ▶ If training is provided about procedures and methods then EE
- ▶ Financial Control
 - ▶ Significant Investment

Independent Contractor con't

- ▶ If you have significant investment you may an IC
 - ▶ Expenses
 - ▶ If you are not reimbursed for expenses you may be an IC
- ▶ Opportunity for Profit or Loss
 - ▶ If you can realize a Profit or Loss, this suggests you in business for yourself
- ▶ Relationship of the Parties
 - ▶ EE Benefits, if you receive benefits you may be an EE
- ▶ Written Contracts
 - ▶ A written Contract may show both you and the business' intention

Information Returns

- ▶ Form 1099 Misc.
 - ▶ Payments of \$600 or more for services
 - ▶ Rent of \$600 or more
 - ▶ Prizes and awards of \$600 or more
 - ▶ Royalties of \$10 or more
 - ▶ All payments to crew members of fishing boats.
- ▶ Form W-2.
- ▶ Form 1099-K for Credit Card transactions
- ▶ Form 8300.
 - ▶ Cash of over \$10,000

Information Returns

■ Make sure to get a completed W-9 BEFORE you pay the Independent Contractor!

Form W-9 (Rev. August 2013) Department of the Treasury Internal Revenue Service		Request for Taxpayer Identification Number and Certification		Give Form to the requester. Do not send to the IRS.
Name (as shown on your income tax return)				
Business name/disregarded entity name, if different from above				
Print or type See Specific instructions on page 2.	Check appropriate box for federal tax classification: <input type="checkbox"/> Individual/sole proprietor <input type="checkbox"/> C Corporation <input type="checkbox"/> S Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Trust/estate <input type="checkbox"/> Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=partnership) ▶ _____ <input type="checkbox"/> Other (see instructions) ▶ _____			Exemptions (see instructions): Exempt payee code (if any) _____ Exemption from FATCA reporting code (if any) _____
	Address (number, street, and apt. or suite no.)			Requester's name and address (optional)
	City, state, and ZIP code			
	List account number(s) here (optional)			
Part I Taxpayer Identification Number (TIN) Enter your TIN in the appropriate box. The TIN provided must match the name given on the "Name" line to avoid backup withholding. For individuals, this is your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see <i>How to get a TIN</i> on page 3. Note. If the account is in more than one name, see the chart on page 4 for guidelines on whose number to enter.				
			Social security number [] [] [] - [] [] [] - [] [] []	
			Employer identification number [] [] [] [] - [] [] [] [] [] []	
Part II Certification Under penalties of perjury, I certify that: 1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and 2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and 3. I am a U.S. citizen or other U.S. person (defined below), and 4. The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.				
Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions on page 3.				
Sign Here	Signature of U.S. person ▶ _____	Date ▶ _____		
General Instructions Section references are to the Internal Revenue Code unless otherwise noted. Future developments. The IRS has created a page on www.irs.gov/w9 for information about Form W-9. Information about any future developments affecting Form W-9 (such as legislation enacted after we release it) will be posted on that page. Purpose of Form A person who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) to report, for example, income paid to you, payments made to you in settlement of payment card and third party network transactions, real estate transactions, mortgage interest you paid, acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA. Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN to the person requesting it (the requester) and, when applicable, to: 1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued), 2. Certify that you are not subject to backup withholding, or 3. Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income, and 4. Certify that FATCA code(s) entered on this form (if any) indicating that you are exempt from the FATCA reporting, is correct. Note. If you are a U.S. person and a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9. Definition of a U.S. person. For federal tax purposes, you are considered a U.S. person if you are: • An individual who is a U.S. citizen or U.S. resident alien, • A partnership, corporation, company, or association created or organized in the United States or under the laws of the United States, • An estate (other than a foreign estate), or • A domestic trust (as defined in Regulations section 301.7701-7). Special rules for partnerships. Partnerships that conduct a trade or business in the United States are generally required to pay a withholding tax under section 1446 on any foreign partners' share of effectively connected taxable income from such business. Further, in certain cases where a Form W-9 has not been received, the rules under section 1446 require a partnership to presume that a partner is a foreign person, and pay the section 1446 withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status and avoid section 1446 withholding on your share of partnership income.				

Cat. No. 10231X

Form W-9 (Rev. 8-2013)

NWAccountants

Margaret Cole & Associates

Audit & Other Filing Facts:

- ▶ 2014 IRS Processed 239.8 Million Returns
 - ▶ 2,220,921 → 1120 (WA 38,274)
 - ▶ 4,642,817 → 1120S (WA 97,074)
 - ▶ 3,799,428 → 1065 (WA 79,697)
- ▶ Approx .86% of all returns got Audited in 2014
 - ▶ Face to face audits yield higher taxes for millionaires

***2014 Data Book**

Some Red Flags

- ▶ Making too much money
 - ▶ If you make more than \$200K Audit rate increase from about .65% to 3.62%
 - ▶ If you make more than 1 Million rate was 6.21%
 - ▶ If you make more than \$10 Million rate goes to around 16.22%
- ▶ 1099's and W-2's not reported properly
- ▶ Large charitable deductions

Some Red Flags con't

- ▶ Home office deduction
 - ▶ It is not home office deduction but rather poor records to support the deduction.
- ▶ Meals & Entertainment
 - ▶ Again it is not deduction but rather poor record keeping.
- ▶ Claiming 100% vehicle use when records say something else.
- ▶ Consistent large losses, IRS thinks this may be a Hobby.

Record Retention Guide

- ▶ Bank Statements and Recons – 3 years
- ▶ EE Personnel Records (after termination) 3 years
- ▶ AR and AP ledgers – 6 years
- ▶ Payroll Tax Records – 6 years
- ▶ Cancelled Check copies – 6 years

Record Retention con't

- ▶ Travel and Entertainment – 6 years
- ▶ Lease (after expiry) – 6 years
- ▶ Corporate Registration – “forever”
- ▶ Purchase and Sale – “forever”
- ▶ Minute Books, Audit Reports - “forever”

CHOOSING A TAX PREPARER

- ▶ Check Preparer's Qualifications
 - ▶ EA, CPA, RTRP or Attorney
- ▶ Check Preparer History
 - ▶ Via NAEA, WAATP, AICPA, BAR, NSA
- ▶ Preparer Fees
 - ▶ Avoid fees based on % of refund

- ▶ E-Filing
 - ▶ any preparer who files more than 10 returns must E-File
- ▶ Preparer is accessible
 - ▶ Make sure that Preparer is available even after tax season
- ▶ Provide records and receipts
 - ▶ Reputable Preparers will ask for records and receipts and ask questions BEFORE they file
- ▶ Do NOT use a prepare that will file your return without W-2's, against IRS E-File rules

- ▶ Never Sign a Blank Return
- ▶ Review the Entire Return before signing it
 - ▶ You are responsible for an accurate return
- ▶ Make sure Preparer Signs enters PTIN
 - ▶ although preparer signs you are responsible for accurate return.
- ▶ Get a copy of the return
- ▶ Report any Abuse to IRS
- ▶ Use Form 14157 to report any abuse to the IRS

QUESTIONS ???

Be sure to visit www.irs.gov/smallbiz

- ▶ www.nwaccountants.com
- ▶ Contact me at: 425-778-2665 or rizwan@nwaccountants.com
- ▶ 16300 Mill Creek Blvd Ste 203
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